

CAPITAL PLANNING Advisory board

Minutes of the Second Meeting of the 1998 Calendar Year

July 17, 1998

The second meeting of the Capital Planning Advisory Board (CPAB) of the 1998 calendar year was held on Friday, July 17, 1998 at 10:00 AM, in Room 327 of the Capitol. Representative Fred Nesler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Fred Nesler, Chairman; Bill Hintze, Vice Chairman; Representative Lawrence Brandstetter; Susan Clary; Beth Hilliard; Bonnie Howell; Paul Isaacs; Lou Karibo; Glenn Mitchell (representing Secretary Codell); and Nick Schwendeman.

Guests: Rep. "Gippy" Graham; Secretary John McCarty and LeChele Taylor, Finance and Administration Cabinet; Commissioner Armond Russ and Jim True, Department for Facilities Management; Jim Abbott, Director, Division of Real Properties; Kim Link, Office of Financial Management and Economic Analysis; Gary Cloyd, Kentucky Community and Technical College System; Tom Engstrom, Department of Education; Terry Thompson, Cabinet for Families and Children; Bart Bolin, Cabinet for Health Services; Allen Holt, Governor's Office for Policy and Management; Commissioner Doug Sapp, Department of Corrections; Mike Helton, McBrayer, McGinnis, Leslie and Kirkland; Jennifer Marsh, Senate President's Office; and Karen Crabtree and Don Judy, Legislative Research Commission.

Press: Dave Baker, Frankfort State Journal; and Mark Chellgren, Associated Press.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Shawn Bowen.

Chairman Nesler reported that Jonathan Downey, who served as the Board's secretary for the past two years, left LRC last month to take a job in the private sector in Louisville. He thanked Shawn Bowen, secretary to the LRC Capital Projects and Bond Oversight Committee, for helping with today's meeting.

Chairman Nesler said minutes of the April 30 meeting had been mailed to members in advance. Mr. Hintze made a motion that the minutes be approved; the motion was seconded by Ms. Howell and passed.

Chairman Nesler said the first item on the agenda was a carry over from the last meeting, and introduced Finance and Administration Cabinet Secretary John McCarty to continue his comments and discussion on the long-range plan for state offices in Frankfort. Secretary McCarty noted that because of a conflict with another meeting he had been unable to return and complete his comments on the plan during the Board's April 30 meeting. He said he wanted to restate the goal from the Fantus study which indicates that over a period of time the state needs to reduce its leased space in Franklin County to about one-third of its total space. He noted that three recently authorized buildings will help accomplish this goal – these are new buildings for the Public Service Commission, the Transportation Cabinet, and the Kentucky Higher Education Assistance Authority.

Secretary McCarty said he had been told that the Board had a continuing interest in the status of the Transportation Cabinet building. Sites now being considered for the building are downtown Frankfort, the periphery of downtown Frankfort, and suburban Frankfort. The state has entered into a memorandum of agreement with the city to poll property owners downtown to see whether an appropriate site could be assembled. The downtown site previously discussed with the Board abuts a historical area, and the state is working with relevant agencies to ensure that those issues would be appropriately addressed. Since the Board's last meeting, another downtown location – involving the current site of Frankfort Scrap Metal - has

come under consideration.

Secretary McCarty explained that while development is easier in the suburbs, a downtown site is being considered because it makes good business sense to redevelop areas and to use existing investments in infrastructure such as sewers, water, and utilities. It is also consistent with Governor Patton's Renaissance Kentucky program, which calls for locating government buildings in central business districts throughout the state where possible.

Secretary McCarty said the state is currently studying the potential of acquiring the necessary property at the downtown sites; it is also doing soils analysis and looking at environmental issues for all of the potential sites. Finally, the Transportation Cabinet is doing a study of downtown Frankfort relative to the traffic impact of a new Transportation Cabinet building, as well as the new History Center, and other potential new construction that would be needed to reach the state's goal of reducing leased space. He said the traffic impact study should be completed near the end of November.

Rep. Brandstetter said he is glad this project is being viewed in the context of Renaissance Kentucky and that if the public policy is to aid in the redevelopment of downtowns, state government should not act contrary to that policy. Rep. Brandstetter said a lot of work is going into investigating the sites and it appears that the bypass site is being considered as a last resort if the downtown sites, technically, cannot be made to work. Secretary McCarty said that is a fair assessment.

Rep. Brandstetter said he has been in this business for 25 years and, citing Newport as an example, said his experience is that whenever a public investment is made in a downtown area, it pays off. He said we need to bend over backwards to put this building downtown and to take the time necessary to do the analysis and make the right decision. According to Secretary McCarty, they are going through appropriate due diligence and are especially concerned about knowing the traffic impacts downtown. Any road improvements might not be needed for some time since vacancies in other downtown buildings during renovations would delay the full traffic impact.

In response to a further question from Rep. Brandstetter, Secretary McCarty said the Transportation Cabinet building would be approximately 420,000 square feet. It would probably be constructed as a 4-5 or 8-9 story building with floor plates of between 50,000 and 100,000 square feet. He said a taller building does not provide the efficiencies needed for a large organization.

Secretary McCarty also noted that the General Assembly had provided flexibility for either traditional state financing and construction, or for a built-to-suit approach to be used. Given the current financial environment, the traditional approach of 20-year bond financing would be preferred.

Mr. Hintze said this building would probably be used for the better part of a century, so a long-range outlook needs to be used in making decisions about it.

Chairman Nesler thanked Secretary McCarty. He said the Board would move on with its agenda of looking at maintenance of state facilities and asked Ms. Ingram, the Board's Staff Administrator, to review the background materials in the members folders. Ms. Ingram noted that the first item in the packet on this topic provided a brief overview of maintenance in Kentucky, which would be the focus of the upcoming presentations. The next item described approaches used in some other states, and the final item was information from a 1995 Financial World magazine article which assigned grades and provided comments on all 50 states relative to their infrastructure maintenance. The authors of this article are now working on another project which will rate the states in several areas including Capital Management; those ratings are to be available early next year.

Chairman Nesler said that Department for Facilities Management Commissioner Armond Russ and Deputy State Budget Director Bill Hintze would provide an overview on state facilities maintenance and funding before the Board begins reviewing individual cabinets and agencies.

Mr. Hintze said that assembling of a maintenance needs inventory is done on a

decentralized basis in Kentucky; it is not the responsibility of the Department for Facilities Management. There is not a single state central agency that assesses the entirety of the state or the Executive Branch as to maintenance needs. To the extent that such an assessment is done anywhere, it is done by this Board and in the budget process. The Department for Facilities Management assists other state agencies and helps manage projects, but does not set the policy or priority on projects from the outset. The planning process and then the budget process, through review by the Governor's Office for Policy and Management, the Governor, and the General Assembly, sorts out the priorities and what funds are to be pledged toward those priorities. Mr. Hintze said there are always innumerable necessary and desirable projects. While the final outcome may not always reflect it, the Board and the budget request process have always placed a priority on maintenance and said it should be addressed as an ongoing priority. Mr. Hintze explained that in addition to listing their priorities, the agencies are responsible for providing an assessment of project costs. These cost estimates are sometimes based on preliminary design or on consultation with Facilities Management, but are more likely based on in-house expertise, comparisons with other agencies or states, or historical experience. This is not an ideal approach but has been in place for a long time.

Mr. Hintze said the most important on-going and recurring source of maintenance funds for all state agencies is capital construction investment income. This is the interest earned from the investment of moneys appropriated to capital construction accounts, trust and agency accounts, and trust and agency revolving accounts. This has provided cash funds of \$10 - \$15 million over the past several decades. Because the amount is so small and so essential, the Governor's recommended use of these funds is not changed by the General Assembly. The funds almost always go for agency maintenance pools which are used for projects costing less than \$400,000 each. These allocations generally continue the level of maintenance activities previously provided on a recurring basis. If the investment pool is expected to increase on a sustainable basis, all of the maintenance pools are increased incrementally. This an effort to keep pace with inflation; however, it does not address the backlog of deferred needs.

Mr. Hintze said this is a minuscule sum of money and there are huge discrepancies in the allocations among agencies and cabinets primarily based on historical factors, but to give more to one would require taking from another. He said this is

something that requires attention at some point. Mr. Hintze added that in the past two biennia, windfalls of nonrecurring, non-General Fund dollars have been available for some catch-up maintenance and renovation needs, including projects costing over \$400,000 each such as restoration of the Capitol dome.

Mr. Hintze also noted that because of the shortage of maintenance funds and the backlog of needs, the state has had to resort, on an ongoing basis, to using a limited amount of bonded indebtedness for major renovation and maintenance. This is usually General Fund-supported debt, but it represents only a minority of all bonded indebtedness and capital projects.

Mr. Hintze said that other approaches available to an agency that does not have adequate maintenance funds include the Emergency Repair, Maintenance, and Replacement Fund; the Capital Construction and Equipment Purchase Contingency Fund; and the newest centrally-administered fund, the Deferred Maintenance Fund. The Deferred Maintenance Fund was instituted in the 1996-98 budget, then put into statute by the 1998 General Assembly. It provides a small sum for statewide needs determined on a priority basis by the Department for Facilities Management and the Governor's Office for Policy and Management. That money may be allocated if an agency does not have a maintenance pool or if the agency has legitimately exhausted its maintenance pool.

Mr. Hintze noted that materials in the members' folders include an agency-by-agency listing of maintenance pool funding over several biennia, as well as a comparison of agency pool requests versus appropriations for 1998-2000. He pointed out that if the requests are considered an assessment of need, the last comparison is really a measure of the inadequacy of the pool funding. He said the Board needs to keep focused on maintenance as a priority, and added that next week he will be meeting with the individuals working on the Rating the States project mentioned earlier by Ms. Ingram.

Ms. Clary asked whether it would be possible to consider long-term renovation costs when a project is first being approved and funded. Mr. Hintze said that is done in some jurisdictions and in the private sector but not in Kentucky; it would take a reconfiguration of our approach to debt, but perhaps is an area deserving of

some serious attention. Ms. Howell noted that the state does not capitalize depreciation on buildings; rent and utility charges are simply to cover the cost of day-to-day maintenance and operations. One possibility that probably needs to be considered would be to charge more rent so that additional funds would be available. Mr. Hintze added that this sounds like the approach used by Tennessee; it would require an adjustment in agency budgets since they would not automatically have the capability to provide a significant increase in their payments.

Mr. Isaacs said his experience has been that state government is always playing catch up and spending more to correct problems that could have been forestalled or extended by good maintenance and management. He said it is important to take advantage of the current good economic times to look not only at the funding, but also at the process and priorities for how the funds are being used. Mr. Hintze said he agreed.

In response to a question from Rep. Brandstetter, Mr. Hintze said that the windfalls have been \$10 - \$15 million in each of the past biennia, but several times that amount would be needed to make an appreciable dent in the maintenance needs. He noted that a portion of the Surplus Expenditure Plan in the 1998-2000 budget will go toward major renovation and repair, particularly to complete some of the parks renovation projects begun earlier. The budget also provides state funds for a maintenance pool for postsecondary education; the \$30 million appropriation must be matched by the institutions. Recently, the postsecondary institutions have had to rely on their own income-generating devices for maintenance funding. Mr. Hintze added that while postsecondary education is the state's largest single investment in physical plant, it is not the bulk of the investment. That is in the rest of state government's facilities, and Mr. Hintze said the backlog of need for those facilities is greater than it is for the universities.

Rep. Brandstetter asked for what percent of state facilities is rent charged and who acts as the landlord. Mr. Hintze and Commissioner Russ explained that the Finance and Administration Cabinet charges rent for all of the office facilities in Franklin County. Noting that it would require a change in the paradigm, Rep. Brandstetter asked whether it would be possible to reflect bond costs in the agency rent so that when the bond is paid off, the rent would provide a cash flow to finance the

reconstruction. He said he had often wondered if there should be a state building authority which would have control over an expanded number of facilities, and would coordinate the rent process such that maintenance costs would be funded through the operating budget.

Rep. Brandstetter thanked Commissioner Russ for bringing the plan reflecting needs for the next 10 – 15 years to the Board's attention. He said that projects are not being done for the sake of political expediency as much any more, partly because of the work of this Board, and he hopes this process will continue and be enhanced because many of the problems being reviewed today can be addressed in this process.

Commissioner Russ noted that currently he must meet the most important needs with the money available, and everything else begins to back up – for example, a 25-year renovation slips to 35 years. He said a more even flow of maintenance funds would help spread the renovations over a period of time, and avoid major costs being incurred in a single biennium as is happening now.

Rep. Brandstetter commended staff for providing information on other states for the Board to review.

Chairman Nesler then asked Commissioner Russ to continue with his presentation focusing on maintenance practices of the Finance and Administration Cabinet. Commissioner Russ introduced Mr. Jim Abbott, Director of the Division of Real Properties, and Mr. Jim True, Deputy Commissioner of the Finance and Administration Cabinet, who would be assisting him. Referring to the handout he had distributed, Commissioner Russ pointed out that the Finance and Administration Cabinet is responsible for only 265 of the over 6,500 state-owned buildings. The Department for Facilities Management has day-to-day responsibility for only the 69 buildings listed on the second page of the handout, most are in Franklin County, but there are also office complexes in London and Madisonville.

Commissioner Russ then explained the organizational chart for the department on the next page of the handout. The Division of Building Services provides janitorial,

grounds keeping, and similar services. The Division of Mechanical Maintenance and Operations operates boiler plants and air condition/heating systems. The Divisions of Contracting and Administration and Engineering process capital projects for all state agencies. The Division of Historic Properties oversees all of the state's historic properties in Frankfort including the Capitol and the Mansions. The Division of Real Properties is involved in real property management, acquisition, disposition, leasing, and all of the record keeping. Commissioner Russ said the department tries to deal with maintenance at the lowest possible echelon. Projects usually begin as work orders, and wherever possible, to increase responsiveness, they are handled by either the Division of Building Services or the Division of Mechanical Maintenance and Operations. These divisions are also responsible for the preventative maintenance program. A meeting is held every two months to review and coordinate larger projects, which may involve several divisions. Once the maintenance pool is committed, remaining projects are prepared for inclusion in the six-year capital plan and the biennial budget request. The department also has a 10-year umbrella plan. Commissioner Russ said the department is beginning to get bogged down; it cannot keep pace with maintenance and repair needs given its current funding and staffing level.

Mr. Abbott next explained the state's building inventory system. He said his division has just completed making the leased property records computer system more user-friendly, and is attempting to make similar improvements in its state property inventory. The goal is to develop a database which correlates, for each installation, all of the file information on CLRs (Commonwealth Lessor Rentals – state-owned property leased out to the private sector), easements, interagency leases, lands purchased, lands sold, and PRs (Property Rentals – property leased in for use by the state). They would also like to tie in information from other divisions in the department which would indicate when capital projects were undertaken, etc, and for buildings administered by the department, the goal is to include information on work performed by the Division of Building Services, etc. Mr. Abbott noted that the handout includes pages showing an overview of the objectives/goals of the state property records system, a sample printout from it, and a sample of the "load sheet" used for entering the data.

Commissioner Russ said it will be a quantum leap to tie in operations of the divisions; it will be about two years before that data input begins and there is also a need to coordinate with the Cabinet's new Management and Administration

Reporting System (MARS). Additionally, the divisions are at different levels in terms of their current data collection systems. He said the database will be accurate relative to property owned and managed by the department, but there will have to be discussions with other agencies about how they can maintain their portion of the database, for instance the University of Kentucky does not use the services of the Department for Facilities Management for anything.

Commissioner Russ then asked Mr. True to discuss the "Projects Status/Schedule" form included in the handout. Mr. True said Commissioner Russ brought this with him to the department about two years ago. It is used to track projects ranging from \$10,000, to those having line-item authorization (over \$400,000). Every other month senior management staff in the department meets to review projects – to determine where cooperative efforts are needed among divisions, whether there are funding constraints, and how projects may relate to major renovations being planned for the future, etc. Relative to allocation of the maintenance pool, Mr. True said the divisions are asked to submit their project lists, then decisions are made as to what can be done within the funding authorized for the pool. Other projects are deferred to the future.

Commissioner Russ said this concluded the department's presentation but they would be pleased to respond to any questions.

In response to Chairman Nesler's question about who handles maintenance of the state-owned properties that are not the responsibility of the department, Commissioner Russ said it is the individual agencies to whom those buildings are assigned. Mr. Hintze explained that most projects are handled by contract with the private sector and that is done by the Contracting and Administration Division of the department. Oversight of projects is a joint responsibility of the professional consultants hired by the state with assistance by the Department for Facilities Management and the agency itself.

Mr. Isaacs asked, in terms of the overall structure of how maintenance is done, whether the Board should be looking at oversight. Mr. Hintze said that probably would be a necessary compliment to stressing maintenance, but he added that such projects are not invisible, they are tracked through the state's budgetary and

accounting systems and records are kept. Agencies are not just given the money with no one taking note of what is done.

Commissioner Russ said Facilities Management does not assist agencies with how they do their day-to-day maintenance, but the Division of Engineering is beginning to build a small staff – one or two people – to work with the agencies to help improve project cost estimates.

Chairman Nesler thanked the Commissioner and his staff for their presentation. He noted that the Board will not have time to meet with all agencies concerning maintenance of their facilities and suggested that staff forward a list of questions on this topic to each agency administering state-owned facilities. The Board concurred with this suggestion.

Chairman Nesler reported two information items had been added to the members' folders since the mailout and asked Ms. Ingram to review them. Ms. Ingram said the first item outlines the membership of the LRC Task Force on Historic Properties. Three members of the Board are on the Task Force – Chairman Nesler and Senator Nunnelley will co-chair the Task Force and Mr. Karibo is also a member. The Task Force is to present its report and recommendations to the Capital Planning Advisory Board next July. The second item reports plans of the Justice Cabinet, Department of Corrections, to use federal funds of \$5,400,000 matched by state funds of \$600,000 for three capital construction projects. They are a 50-bed super max (ultra-maximum security) unit at the Kentucky State Penitentiary, a 150-bed transition dormitory at the Kentucky State Reformatory, and a 50-bed minimum security unit at the Green River Correctional Complex.

Chairman Nesler then reminded members that the next meeting is scheduled for Tuesday, September 22 at Murray State University and asked Ms. Ingram to provide an update on that meeting. Ms. Ingram noted that the meeting will begin at 9:00 a.m. CDT and arrangements are being made for members to spend the night of September 21 at Kenlake State Resort Park near Murray. The focus of the meeting on September 22 will be maintenance of the postsecondary education facilities; and plans are being made to include a discussion with David Banks who has served as the Council on Postsecondary Education's consulting architect in

reviewing project requests and campus maintenance over the past several years. There will also be discussion of the maintenance standard which is being required before funds are allocated for capital projects in the 1998-2000 budget, and there will be a brief tour of the University campus.

Mr. Karibo moved that the meeting be adjourned. The motion was seconded and the meeting was adjourned at 12:00 noon.